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C.I.A. Officers Testify at Hawaii Fraud Trial

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HONOLULU, Aug. 29 — A retired officer of the Central Intelligence Agency's clandestine service has told, in tears, how he persuaded his 86-year-old mother, who was blind and disabled, to invest most of her savings in the business ventures of Ronald R. Rewald.

"I don't want to appear as if I'm a patsy," John C. Kindschi, the former agent, testified here this week, acknowledging that his mother had lost more than \$100,000 after giving her savings to Mr. Rewald. "But sometimes the head follows the heart."

Among the cases of espionage and intrigue that have filled this summer, the one unfolding in a Honolulu courtroom has been perhaps the most curious.

Mr. Rewald, a 41-year-old Honolulu businessman, is being tried before Federal District Judge Harold M. Fong on 98 counts of fraud, perjury and tax evasion.

'Ability to Convey Sincerity'

Prosecutors say that Mr. Rewald, described by one of his lawyers as someone who has the "ability to convey sincerity," swindled hundreds of investors out of \$22 million.

The prosecutors charge that Mr. Rewald not only mesmerized investors with promises of a 26 percent annual return on their investments but also deceived the Central Intelligence Agency and many of its officers experienced in matching wits with the K.G.B., the Soviet intelligence agency.

At least five and perhaps as many as a dozen C.I.A. officers appear to have invested and lost hundreds of thousands of dollars in dealings with Mr. Rewald, and the prosecutors charge that he exploited a connection with the agency to persuade other investors to give him money.

Mr. Rewald's lawyers assert that he never intended to defraud anyone and that he was a patriot who was used and abandoned by the C.I.A. — "a spy left out in the cold," in the words of one of his lawyers, Brian Tamanaha, a public defender.

Outline of Case So Far

The jury trial began Aug. 7 and is expected to last two more months.

This is an outline of the case the Government has presented so far, based on court documents and testimony:

Mr. Rewald, a native of Wisconsin, was an ambitious, athletic young man who has said that as a junior-college student in the 1960's he provided information to the C.I.A. about student anti-war activists.

In 1977 he moved to Hawaii after pleading no contest to a petty theft charge brought against him in Wisconsin. Mr. Rewald had opened a chain of sporting goods stores, and the authorities said he had violated Wisconsin laws while trying to sell franchises for the stores.

In Hawaii Mr. Rewald established a financial consulting company, the Consolidated Mutual Investment Corporation. In 1978 he visited the Honolulu office of the Central Intelligence Agency, introduced himself to its Director, Eugene J. Welch, and volunteered to do whatever he could for the agency.

Mr. Welch later suggested to other C.I.A. officials that the businessman could be helpful in reporting on intelligence matters while traveling abroad or by providing "corporate cover" to intelligence officers needing to conceal their identities while working in this country or abroad.

Before long Mr. Welch had introduced Mr. Rewald to his successor, Mr. Kindschi, and they became friends.

Testimony by C.I.A. officers has indicated that the agency has a branch that makes agreements with bona fide businesses to create the illusion that its agents are employees of the companies.

Under such an arrangement the companies fictitiously list the agents on their payrolls, issue them business cards and stationery, and agree to confirm their employment to any callers, a process called "backstopping."

Few Questions Asked

Court testimony indicates that the agency sometimes asks few questions about the companies with which it makes such agreements.

John H. Mason, a member of the corporate cover branch in the late 1970's, testified that after a one-hour meeting with Mr. Rewald in 1978, he recruited him to provide cover for a C.I.A. operative, C. L. Richardson, who needed an alias for a planned attempt to recruit as a spy an unidentified foreign national who was temporarily in this country.

Although a check by the agency's Office of Security uncovered Mr. Rewald's Wisconsin conviction, Mr. Mason said he recommended against a full investigation because Mr. Rewald had complained that interviews with his neighbors might create "unfavorable attention and possibly publicity."

Mr. Rewald, Mr. Mason wrote to the agency, had made a "good impression, appears very patriotic and pro-agency."

Glowing Appraisal by C.I.A.

The next year Mr. Kindschi wrote an even more glowing appraisal of Mr. Rewald for the Office of Security. He called him a champion sprinter, a former professional football player, a pilot, a devout churchgoer and a hugely successful businessman whose business associates included members of some of Hawaii's oldest families, Elvis Presley and other Hollywood stars.

Asked at the trial how he knew this, Mr. Kindschi answered, "He told me."

Subsequently Mr. Rewald opened other companies, naming them Bishop Baldwin Rewald Dillingham & Wong, H & H Enterprises and Canadian Far East Trading.

Court documents indicate that the C.I.A. used the companies to provide cover for a dozen or more agents. But Mr. Mason and agency officials have emphasized that other than this "backstopping" function, Mr. Rewald had no ties to the agency.

Mr. Rewald received no money from the Central Intelligence Agency except for out-of-pocket expenses such as telephone bills and stationery that totaled almost \$2,800 over two years.

He was living lavishly nonetheless, with a fleet of expensive cars, an ocean-front mansion and two ranches. He bought the Hawaii Polo Club and a string of polo ponies and spent lavishly on women, the prosecutors say.

They say that Mr. Kindschi, who upon his retirement from the C.I.A. in 1980 went to work for one of Mr. Rewald's companies, was not the only person impressed by Mr. Rewald's charm and personal magnetism.

Promises of high returns on their investments, which were sometimes fulfilled, had lured many professional people in Hawaii and on the mainland to give money to Mr. Rewald. One official in the C.I.A.'s clandestine operations was dismissed for inducing other agents to invest with Mr. Rewald.

In fact, according to John Payton, an Assistant United States Attorney who heads the prosecution, Mr. Rewald was generating ever-increasing investments by using money from later investors to pay high interest rates to early investors, which in turn lured new investors.

In 1982, according to court records, Joseph Camplone, an agent of the Internal Revenue Service who lived not far from Mr. Rewald, became puzzled by his apparent wealth, especially reports from his own children describing how Mr. Rewald's children were sometimes taken to school sporting events in chauffeured limousines.

Court documents indicate that when Mr. Camplone discovered that Mr. Rewald had reported receiving no income in the previous two years, he opened an investigation. The prosecutors say that when Mr. Rewald heard about the inquiry he informed the C.I.A. that it could prove embarrassing to the agency and persuaded it to intervene to stop the inquiry.

Ultimately the investigation was reopened. On July 29, 1983, Mr. Rewald was found barely conscious in a hotel room overlooking Waikiki Beach, with a suicide note nearby.

When his bank accounts were checked for \$22 million in investors' money, only \$300,000 could be found. Mr. Rewald said he had spent much of the money to finance a high-flying style demanded by the C.I.A.

The 58-year-old Mr. Kindschi, who spent more than 20 years in the C.I.A. and who said he had lost more than \$100,000 of his own money with Mr. Rewald, said at the trial that he had regarded Mr. Rewald as "an all-American boy," and that he and his wife had become so close to the businessman's five children that they "looked on us almost as grandparents."